

PSI AUSTRALIAN

PERFORMANCE OF SERVICES INDEX®

Ai AUSTRALIAN INDUSTRY GROUP

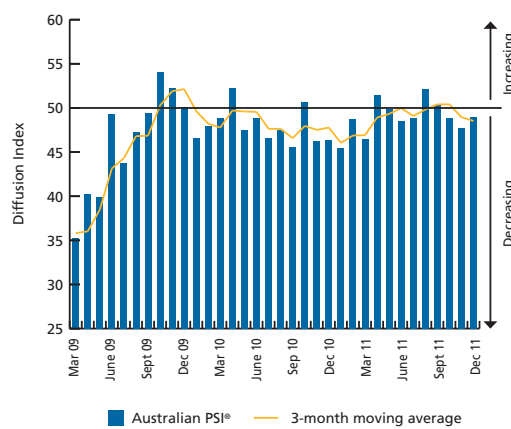
Commonwealth Bank

DECEMBER 2011

SERVICES SECTOR REMAINS IN NEGATIVE TERRITORY

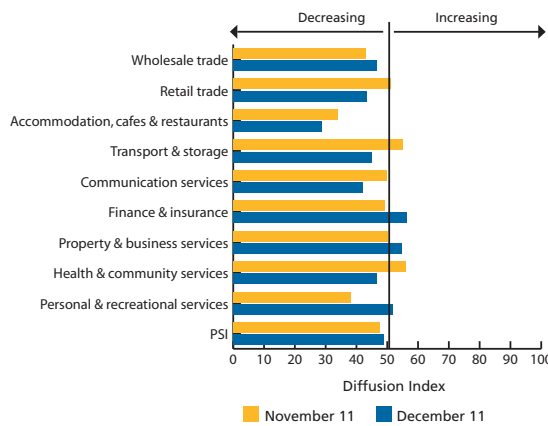
KEY FINDINGS

- The latest seasonally adjusted Australian Industry Group/Commonwealth Bank Australian Performance of Services Index (**Australian PSI®**) was 1.3 points stronger at 49.0 in December (readings below 50 indicate a contraction in activity).
- In three-month moving average terms, the **Australian PSI®** suggests that the services sector has slipped back after activity stabilised during the middle of the year.
- Ai Group members reported that household discretionary spending softened in the lead up to Christmas and that retail sales remained subdued in December
- The activity index of the hospitality sub-sector has recorded the sharpest falls in recent months, while the retail trade activity index fell below the critical 50 point level in December.
- Consistent with this, price discounting remained prominent in the retail sector during the month.



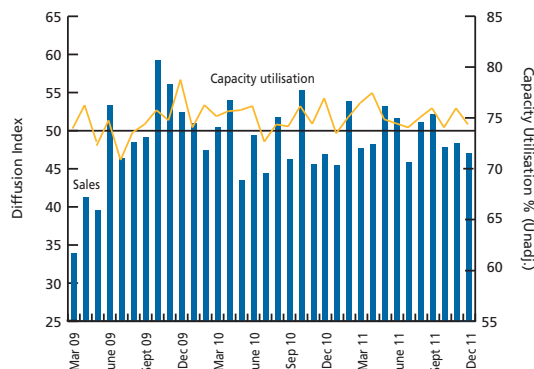
SECTORS

- On a seasonally adjusted basis, activity expanded in three of the nine services sub-sectors in December, down from four in November.
- Activity levels in the professional business service sub-sectors appear to have stabilised in recent months while conditions in sub-sectors directly exposed to household spending generally remain subdued.
- Activity expanded in the finance & insurance and property & business service sub-sectors during December, while activity contracted in the hospitality and retail trade sub-sectors.
- Ai Group members continue to note that uncertainty and low levels of consumer confidence are key factors hindering economic activity throughout the services sector.
- In addition, low levels of commercial construction activity and weak property sales in recent months have contributed to weaker levels of activity.

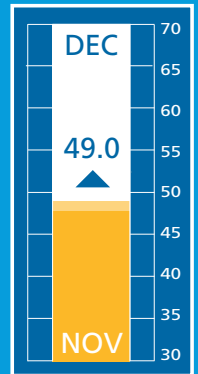


SALES AND CAPACITY

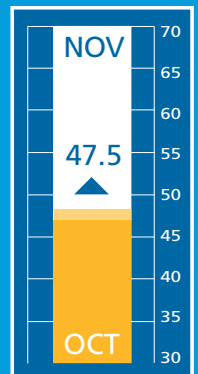
- Sales levels in the services sector declined for a third consecutive month in December.
- The sales component of the **Australian PSI®** decreased by 1.4 points to 47.0.
- Sales fell sharply in the hospitality and finance & insurance sub-sectors.
- On the other hand, sales increased in the health & community and personal and recreational services sub-sectors.
- Capacity utilisation in the services sector (which is not seasonally adjusted) eased back to 74.3% in December, and is in line with the average level recorded since the start of 2010.



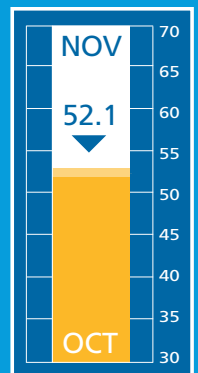
AUSTRALIAN PSI®



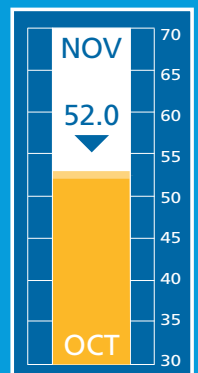
EUROZONE SERVICES INDEX



UK SERVICES INDEX

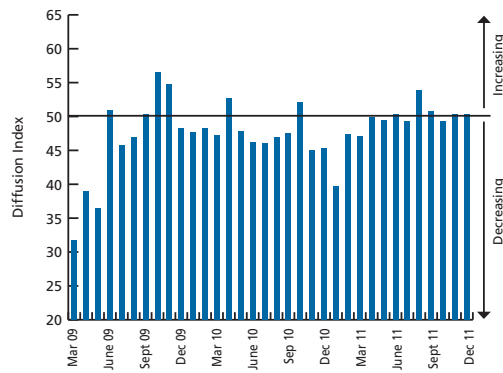


USA SERVICES INDEX



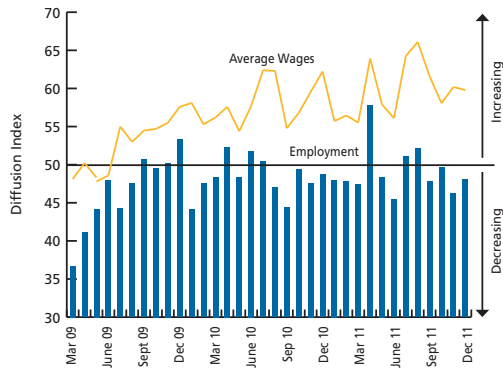
NEW ORDERS

- New order levels were broadly unchanged in December.
- The new orders component of the **Australian PSI®** remained at 50.4.
- The new orders sub-index has hovered around the critical 50 point level for nine consecutive months.
- This suggests that new orders in the services sector have stabilised in recent months following a prolonged period of decline.
- Growth in new order levels has recently been highest in the professional business service sub-sectors and lowest in the sectors directly exposed to household spending.



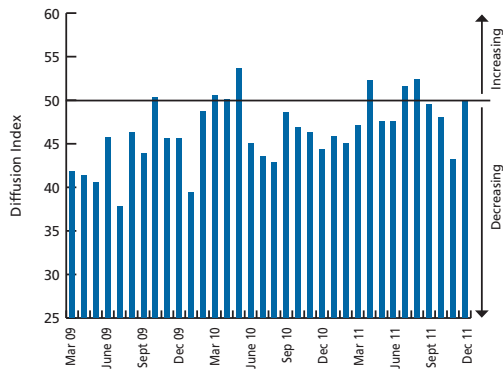
EMPLOYMENT AND WAGES

- The employment component of the **Australian PSI®** increased by 1.9 points in December to 48.1.
- Reports of declining staff levels were common across the services sector in December, with only two sub-sectors reporting employment growth in the month.
- Employment levels fell particularly sharply in the wholesale trade and communication services sub-sectors.
- The average wages index decreased by 0.4 points to 60.4 in December.
- Abstracting from monthly volatility, the wages sub-index suggests that services sector wages growth has gradually increased over the course of the year.



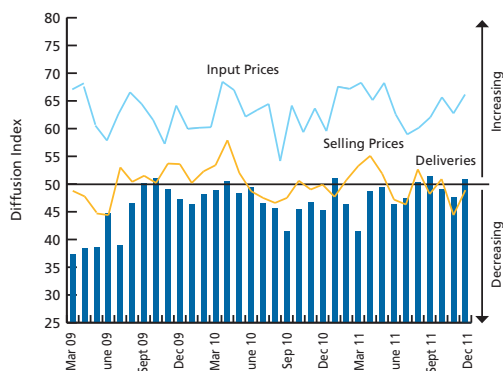
STOCKS

- Stock levels declined for a fourth consecutive month.
- The stocks component of the **Australian PSI®** increased 6.7 points to 49.9.
- Stocks increased strongly in the retail trade, transport & storage and finance & insurance sub-sectors.
- On the other hand, stock levels fell sharply in the health & community services and personal & recreational services sub-sectors.



DELIVERIES, INPUT COSTS AND SELLING PRICES

- Deliveries to the services sector increased in December.
- The supplier deliveries component of the **Australian PSI®** increased by 3.4 points to 50.9.
- The input prices index increased by 3.4 points to 66.9 in December, and is now slightly above the average level seen since the start of 2009.
- The average selling prices index increased by 4.5 points to 48.9.
- Reports of price discounting were common across the services sector in December, with only two sub-sectors reporting selling price growth in the month.
- The selling prices index of the retail trade sub-sector fell further in December.



AUSTRALIAN PSI®*

	December 2011	November 2011	Monthly Change	Direction	Rate of Change	Trend** (Months)
AUSTRALIAN PSI®	49.0	47.7	1.3	Contracting	Slower	3
SALES	47.0	48.4	-1.4	Contracting	Faster	3
NEW ORDERS	50.4	50.4	0.0	Expanding	No change	2
EMPLOYMENT	48.1	46.2	1.9	Contracting	Slower	4
SUPPLIER DELIVERIES	50.9	47.6	3.4	Expanding	From contracting	1
INVENTORIES	49.9	43.2	6.7	Contracting	Slower	4
INPUT PRICES	66.9	63.5	3.4	Expanding	Faster	107
SELLING PRICES	48.9	44.4	4.5	Contracting	Slower	2
WAGES	60.4	60.8	-0.4	Expanding	Slower	30
CAPACITY UTILISATION (%)	74.3	75.9	-1.6	Lower		na

Results are based on the responses of around 200 companies. Forward seasonal factors were generated by the ABS in April 2011.

* Australian PSI® data is seasonally adjusted for sales, new orders, employment, supplier deliveries, inventories and input prices.

** Number of months moving in current direction.

WHAT IS THE AUSTRALIAN PSI®?

The Australian Industry Group – Commonwealth Bank Australian Performance of Services Index (Australian PSI®) is a seasonally adjusted national composite index based on the diffusion indexes for sales, orders/new business, deliveries, inventories and employment with varying weights. An Australian PSI® reading above 50 points indicates services activity is generally expanding; below 50, that it is declining. The distance from 50 is indicative of the strength of the expansion or decline.

More information can be obtained from the Ai Group website www.aigroup.com.au

SPONSOR STATEMENT

Commonwealth Bank is delighted to be the sponsor of the Australian PSI® and is pleased to be able to provide the expertise of our Chief Economist Michael Blythe as the key spokesperson for the Performance of Services Index. The Commonwealth Bank is one of Australia's premier service organisations and with the majority of the Australian economy being services based we believe this important piece of research will add real value to the industry. It will provide insights and information that have not previously been available. We look forward to continuing to work with the Australian Industry Group to enhance and develop the Australian PSI®.



CONTACT

Heather Ridout
Chief Executive
Ai Group
work 02 9466 5504

John Peters
Senior Economist
Commonwealth Bank
work 02 9117 0112
mobile 0410 482 500

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www.markiteconomics.com

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